
COMMONWEALTH OF PUERTO RICO

SOCIOECONOMIC AND COMMUNITY
DEVELOPMENT OFFICE

FINANCIAL STATEMENT – CASH BASIS,
SUPPLEMENTARY INFORMATION AND INDEPENDENT
AUDITORS' REPORT
(WITH THE ADDITIONAL REPORTS AND
INFORMATION REQUIRED BY THE *GOVERNMENT*
AUDITING STANDARDS AND THE UNIFORM GUIDANCE)

For the Fiscal Year Ended June 30, 2023



1208 Ave. Franklin D. Roosevelt

San Juan Puerto Rico 00920

Visit our website at www.odsec.pr.gov/

Thais M. Reyes Serrano, Executive Director

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López-Vega, CPA, PSC

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- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Executive Director
Commonwealth of Puerto Rico
Socioeconomic and Community Development Office
San Juan, Puerto Rico

Report on the Audit of the Financial Statement

Opinion

We have audited the accompanying cash basis financial statement of the **Socioeconomic and Community Development Office (Office)** which comprise the Statement of Cash Receipts and Disbursements – Governmental Funds for the fiscal year ended June 30, 2023, and the related notes to the cash basis financial statement.

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash receipts and disbursements transactions of the **Office's** governmental funds, and the respective cash basis net changes thereof, for the fiscal year ended June 30, 2023, in conformity with the basis of accounting described in **Note 1**.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the **Office** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

As described in **Note 1**, the **Office** prepares its Statement of Cash Receipts and Disbursements – Governmental Funds on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of Matter

The **Office's** Statements are intended to present fairly the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Office**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in **Note 1**, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Office's** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

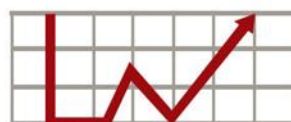
Auditors' Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **Office's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Office's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 and 22 be presented to supplement the financial statement.

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the **Office's** financial statement. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2024, on our consideration of the **Office's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Office's** internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Office's** internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

This report is intended solely for the information and use of management, others within the organization and the United States Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 8, 2024

Stamp No. E537147 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

INTRODUCTION

As management of the **Socioeconomic and Community Development Office (Office)**, we offer to the readers of this annual financial report our discussion and analysis of the **Office's** financial performance during the fiscal year ended June 30, 2023. The following discussion and analysis has been designed to accomplish the following goals:

- Assist the reader in focusing on significant financial issues;
- Provide an overview of the **Office's** financial activity;
- Identify any material deviations from the financial plan (the approved budget), and;
- Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the **Office's** financial statement.

ORGANIZATION AND MISSION STATEMENT

Law 10-2017

Law 10-2017, creates the "**Socioeconomic and Community Development Office**" (known as **ODSEC** by its Spanish acronym). Under the provisions of this Act the **Office of the Commissioner for Municipal Affairs (OCAM)** transferred to **Office** the administration of federal funds known as "Community Development Block Grant"(CDBG), the special funds includes Community Development Block Grant Fund, CDBG - Disaster Recovery Enhancement Fund, CDBG - Neighborhood Stabilization Fund and Section 108 Loan Program, known as the "Loan Guarantee Assistance Under Section 108". On July 27, 2018 Law 162 amends Article 4.1 of Law 10-2017, as known Organic Law of "Oficina de Desarrollo Socioeconómico Comunitario"(ODSEC) which indicates that the Department Housing of the Government of Puerto Rico will be the entity designated to receive and administer the "Community Development Grant" (CDBG) funds, the special funds included in the CDBG program that include the "Community Development Block Grant for Disaster Recovery (CDBG-DR), the Neighborhood Stabilization Program" (NSP), "Disaster Recovery" and the funds under the Section 108 Loan Program, known as the "Loan Guarantee Assistance Under Section 108". Actually, the **Office** receives and administers the "Community Services Block Grant"(CSBG) to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. Also, the **Office** receives and administers the "Juvenile Justice and Delinquency Prevention Fund" to support states and communities in their efforts to development and implement effective and coordinated prevention and intervention programs and to improve the juvenile justice system so that it protects public safety, holds justice-involved youth appropriately accountable, and provides treatment and rehabilitative services tailored to the needs of juveniles and their families.

The **Office** is responsible for carrying out the programs of the Commonwealth directed toward the development of the low-income communities in Puerto Rico. In addition, the **Office** acts as a coordinator social service programs or programs of any related nature giving emphasis to the self-motivation of individuals to achieve good life conditions and develop their skills to reach an economic and social independence. Through its own actions or in coordination with other government or private organizations, the **Office** carries out programs of direct training to low-income persons, motivation and training programs, community improvement projects, programs to organize the communities' leaders, guidance programs for individuals and families and any other activity which leads to the social improvement of communities as wells as of individuals.

The operations of the **Office** are funded through annual budgetary appropriations approved by the Legislature of the Commonwealth of Puerto Rico. The annual final budgetary appropriation amounted to \$15,866,000 for the fiscal year ended June 30, 2023.

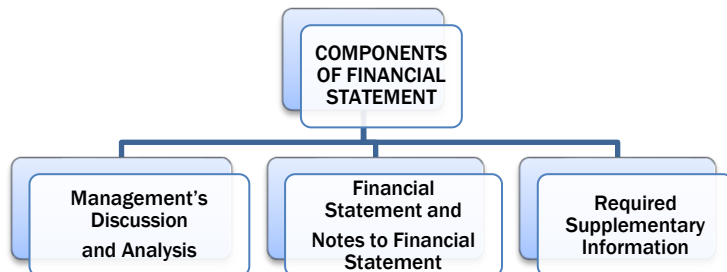
FINANCIAL HIGHLIGHTS

- In the **Office** Statement of Cash Receipts and Cash Disbursements – Governmental Funds, the actual cash receipts exceeded actual cash disbursements by \$12,053,398.
- The General Fund (the primary operating fund) cash receipts amounted to \$17,063,270 and represents 35% of total cash receipts during the fiscal year.
- The General Fund (the primary operating fund) cash disbursements amounted to \$5,009,872 and represents 12% of total cash disbursement for the fiscal year.
- During the fiscal year 2022-2023, federal funds received amounted to \$32,272,947 and federal funds disbursements amounted to \$37,669,603.
- On a budgetary basis, actual cash receipts exceeded actual cash disbursements by \$13,520,996.

FINANCIAL STATEMENT PRESENTATION

Overview of the Financial Statement

The **Office's** financial statement comprises three components: (1) management discussion and analysis, (2) financial statement, and (3) required supplementary information.



- **Financial Statement** –The **Office** uses the cash basis of accounting to account for all funds administered. Under this method, revenue received is recognized as cash when funds are transferred – in and expenditures are recognized when funds are disbursed or transferred – out. Therefore, the statement is not intended to present the **Office** results of operations in accordance with accounting principles generally accepted in the United States of America.

The Statement of Cash Receipts and Cash Disbursements presents, within its cash receipts, the funds appropriated by the Commonwealth and the grants received from U.S. Department of Health and Human Services, U.S. Department of Justice and U.S. Department of Treasury. It also presents its cash disbursements by program. The difference between the cash receipts and cash disbursements is presented as an excess or deficiency for the year. All of this combined provides the general financial information of the **Office**; however, other nonfinancial factors shall be considered within any comprehensive analysis.

- **Notes to the Financial Statement** – Provides integral information needed to explain the basis for the numbers used within the Financial Statement and provide more detailed data.
- **Required Supplementary information** – Provides additional information to better understand the financial position of the **Office** and contains the Budgetary Comparison Schedule for the General Fund.

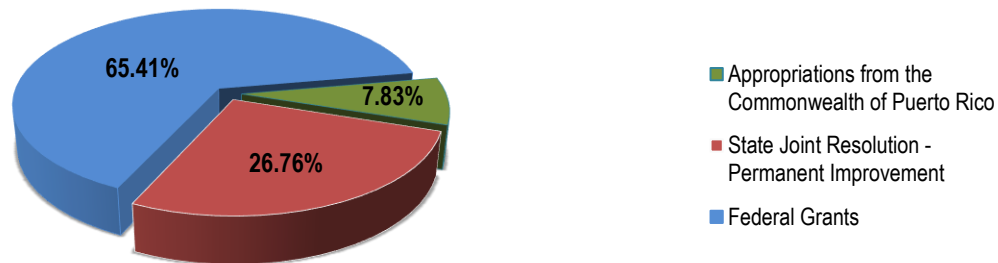
FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Governmental Fund Financial Statement

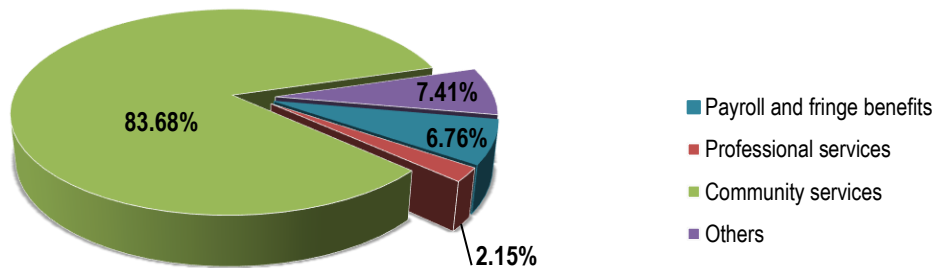
The governmental fund financial statement focuses on major funds. The **Office's** major funds are the general fund (which accounts for the main operating activities of the **Office**) and the federal fund (which account for all grants received from the federal programs). The **Office's** Statement of Cash Receipts and Cash Disbursements for fiscal year ended June 30, 2023, presented those four major funds: 1) General Fund; 2) Community Service Block Grant & CARES Act – Federal and 3) Other Non-Major Funds.

The following figures present how governmental activities of the **Office's** basic services were financed and distributed. These activities are primarily financed through state assignments and federal grants. The accounts of the **Office** are organized on two fund types: general fund and federal fund. The **Office** maintains appropriations for various individual state and federal funds within each fund type. The state appropriations are presented as general fund, which correspond to the funds accounted for the operations of the **Office** and appropriations granted for specific purposes, respectively. The measurement focus of the **Office's** governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending and determination of the excess (deficiency) of receipts over (under) cash disbursements, rather than upon net income determination. Such financial information is useful in assessing the **Office's** financing requirements.

Cash Receipts 2023



Cash Disbursements 2023



FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONTINUED)

GENERAL FUND BUDGETARY HIGHLIGHTS

A budget is prepared for the General Fund and represents legislative appropriations for the general operation of the **Office**. The procedures followed for approval and operations of the budget are defined by the laws of Commonwealth of Puerto Rico. On a budgetary basis, actual cash receipts exceeded actual cash disbursements by \$13,520,996.

ECONOMIC FACTORS

American Rescue Plan (ARPA) – Stimulus Package

On March 11, 2021, the American Rescue Plan Act (ARPA) of 2021, was signed into law, the latest COVID-19 stimulus package. Within ARPA, the Coronavirus State and Local Fiscal Recovery Fund provides **\$350** billion for states, municipalities, counties, tribes, and territories, including **\$130.2** billion for local governments split evenly between municipalities and counties. The **Office** was assigned **\$20** million in ARPA funds during 2022-2023 fiscal year.

FINANCIAL CONTACT

The **Office's** financial statement is designed to present the readers with a general overview of the cash receipts and cash disbursements of the **Office**. Questions or concerns regarding any information in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico **Socioeconomic and Community Development Office** Executive Director, 1208 Ave. Franklin D. Roosevelt, San Juan Puerto Rico 00920.

	General Fund	Community Services Block Grant & CARES Act – Federal	Other Non-Major Funds	Total Governmental Funds
CASH RECEIPTS				
Appropriations from the Commonwealth of Puerto Rico	\$ 3,863,270	\$ -	\$ -	\$ 3,863,270
State Joint Resolution – Permanent Improvement	13,200,000	-	-	13,200,000
Federal Grants	-	31,985,235	287,712	32,272,947
Total receipts	<u>17,063,270</u>	<u>31,985,235</u>	<u>287,712</u>	<u>49,336,217</u>
CASH DISBURSEMENTS				
Payroll and fringe benefits	1,943,075	710,308	233,629	2,887,012
Professional services	246,163	656,846	14,800	917,809
Equipments	3,505	267,334	-	270,839
Supplies and materials	12,485	165,904	-	178,389
Permanent improvements	1,153,077	-	-	1,153,077
Utilities	237,923	16,389	-	254,312
Transportation	23,286	19,912	39,283	82,481
Community services	1,238,504	34,474,108	-	35,712,612
Others	151,854	515,026	556,064	1,222,944
Total disbursements	<u>5,009,872</u>	<u>36,825,827</u>	<u>843,776</u>	<u>42,679,475</u>
Excess of cash receipts over (under) cash disbursements	<u>\$ 12,053,398</u>	<u>\$ (4,840,592)</u>	<u>\$ (556,064)</u>	<u>\$ 6,656,742</u>

The accompanying notes to financial statement – cash basis is an integral part of this Statement.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Law 10-2017, creates the “**Socioeconomic and Community Development Office**” (known as **ODSEC** by its Spanish acronym). Under the provisions of this Act the **Office of the Commissioner for Municipal Affairs (OCAM)** transferred to the **Office** the administration of federal funds known as “Community Development Block Grant” (CDBG), the special funds includes Community Development Block Grant Fund, CDBG - Disaster Recovery Enhancement Fund, CDBG - Neighborhood Stabilization Fund and Section 108 Loan Program, known as the “Loan Guarantee Assistance Under Section 108”.

On July 27, 2018, Law 162 amends Article 4.1 of Law 10-2017, as known Organic Law of “Oficina de Desarrollo Socioeconómico Comunitario”(ODSEC) which indicates that the Department Housing of the Government of Puerto Rico will be the entity designated to receive and administer the “Community Development Grant” (CDBG) funds, the special funds included in the CDBG program that include the “Community Development Block Grant for Disaster Recovery (CDBG-DR), the Neighborhood Stabilization Program” (NSP), “Disaster Recovery” and the funds under the Section 108 Loan Program, known as the “Loan Guarantee Assistance Under Section 108”.

Currently, the **Office** receives and administers the “Community Services Block Grant” (CSBG) to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. Also, the **Office** receives and administers the “Juvenile Justice and Delinquency Prevention Fund” to supports states and communities in their efforts to development and implement effective and coordinated prevention and intervention programs and to improve the juvenile justice system so that it protects public safety, holds justice-involved youth appropriately accountable, and provides treatment and rehabilitative services tailored to the needs of juveniles and their families.

The **Office** is responsible for carrying out the programs of the Commonwealth directed toward the development of the low-income communities in Puerto Rico. In addition, the **Office** acts as a coordinator social service programs or programs of any related nature giving emphasis to the self-motivation of individuals to achieve good life conditions and develop their skills to reach an economic and social independence.

Through its own actions or in coordination with other government or private organizations, the **Office** carries out programs of direct training to low-income persons, motivation and training programs, community improvement projects, programs to organize the communities’ leaders, guidance programs for individuals and families and any other activity which leads to the social improvement of communities as wells as of individuals.

Financial Reporting Entity

The **Office** is for financial reporting purposes, part of the Commonwealth of Puerto Rico. Its financial data is included as part of the Commonwealth of Puerto Rico's financial statement, and as such, the Treasury of the Commonwealth of Puerto Rico serves as trustee of the funds assigned to the **Office** by the Legislative Branch and Federal Agencies. The Treasury Department of Puerto Rico also handles and records expenditures made with such funds and provides the **Office** with reports regarding such activities.

The financial information included in the accompanying Statement of Cash Receipts and Cash Disbursements was obtained from the Puerto Rico Treasury Department’s Integrated Financial Accounting System (PRIFAS) and is issued solely to comply with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America and for the information to the federal awarding agencies, pass-through entities, regulators, management and those charged with the governance.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The accounts of the **Office** are organized on the basis of the three fund types: general fund, federal funds, and others governmental funds. The **Office** maintains appropriations for several individual state and federal funds within each fund type. Those state appropriations are presented as general fund and other governmental funds, which correspond to the funds accounted for the **Office** and appropriations granted for specific purposes, respectively. As more fully explained in the section “Basis of Accounting” below, each fund is accounted for with a set of accounts which include only receipts and disbursements.

No balance sheet accounts are reported. The individual funds account for the governmental resources allocated to them for purposes of carrying on specific activities in accordance with laws, regulations and other restrictions. State funds are appropriated by the Legislature of the Commonwealth of Puerto Rico and are funds through which most functions typically are financed. Federal funds reflect the federal financial assistance managed by the **Office** from programs funded by the Federal Government. The individual funds included in this fund type are classified accordance with their cost category.

Basis of Accounting

The **Office’s** accompanying financial statement has been prepared in accordance with the cash basis of accounting, which is a special purpose framework other than generally accepted accounting principles (GAAP) in the United States of America, as established by the Governmental Accounting Standards Board (GASB).

The **Office** follows a receipts and disbursements method of accounting to account for all funds administered under this method, cash, or funds transferred in are recognized as revenues when received, and expenditures are recognized when funds are disbursed or transferred out. Therefore, the Statement of Receipts and Disbursements is not intended to present the **Office’s** results of operations in accordance with generally accepted accounting principles in the United States of America.

Budgetary Accounting

Formal budgetary accounting is employed as a management control tool for all funds of the **Office**. Annual operating budgets are adopted each fiscal year through passage of an annual budget, which is approved by the Legislature of the Commonwealth of Puerto Rico and amended, if is required, throughout the year. Budgetary control procedures require the obligation of funds before purchase orders can be placed; it means that applicable appropriations must be reserved before purchase orders or contracts can be entered into. Obligated appropriations at year end carryover to the next fiscal year and are not reported as part of the next fiscal year’s budget. For budgetary purposes, encumbrances accounting is used. The encumbrances (that is, purchase order and contracts) are considered expenditures when paid.

The operations of the **Office** are funded through annual budgetary appropriations approved by the Legislature of the Commonwealth of Puerto Rico. The original and final annual budgetary appropriation amounted to \$15,866,000. For the fiscal year ended June 30, 2023. In addition, the **Office** receives state funds assignment by Commonwealth Legislature Resolutions.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus

The basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred. This cash basis of accounting differs from GAAP primarily because revenue is recognized when received in cash rather than when earned and subject to accrual, and expenditures are recognized when paid rather than when incurred to subject to accrual.

This financial statement has been prepared pursuant to the provision of Law No. 230 of July 23, 1974, as amended, known as the “Puerto Rico Government Accounting Act”. This law establishes public policy with respect to the control of an accounting for public funds and property. The **Office** funds are, by law, under custody and control of the Secretary of Treasury in the PRIFAS accounting system.

Financial information of the **Office** is presented in this report as follow:

1. **Management’s discussion and analysis** – Introduces the financial statement and provides an analytical overview of the **Office’s** financial activities.
2. **Financial Statement** – The **Office** uses the cash basis of accounting to account for all governmental funds administered. Under this method, revenue received is recognized as cash when funds are transferred in and expenditures are recognized when funds are disbursed or transferred out. Therefore, the statement is not intended to present the **Office** results of operations in accordance with accounting principles generally accepted in the United States of America.

The Statements of Cash Receipts and Cash Disbursements presents, within its cash receipts, the funds appropriated by the Commonwealth and the grants received from U.S. Department of Health and Human Services, U.S. Department of Justice and U.S. Department of Treasury. It also presents the cash disbursements for governmental. The difference between the cash receipts and cash disbursements is presented as an excess or deficiency for the year. All this combined provides the general financial information of the **Office**; however, other nonfinancial factors shall be considered within any comprehensive analysis.

3. **Notes to the Financial Statement** – Provides integral information needed to explain the basis for the numbers used within the Financial Statement and provide more detailed data.
4. **Required Supplementary information** – Provides additional information to better understand the financial position of the **Office** and contains the Budgetary Comparison Schedule for the General Fund. Formal budgetary accounting is employed as a management control tool for all funds of the **Office**. Annual operating budgets are adopted each fiscal year through passage of an annual budget, which is approved by the Legislature of the Commonwealth of Puerto Rico and amended, if is required, throughout the year. Budgetary control procedures required the obligation of funds before purchase orders can be placed; it means that applicable appropriations must be reserved before purchase orders or contracts can be entered into. Obligated appropriations at year end carryover to the next fiscal year and are not reported as part of the next fiscal year’s budget. For budgetary purposes, encumbrances accounting is used. The encumbrances (that is, purchase order and contracts) are considered expenditures when paid.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Measurement Focus (continued)**

Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Major funds are determined based on a minimum criterion, that is, a percentage of the cash receipts or cash disbursements or based on the **Office** official's criteria if the fund is particularly important to financial statement users.

The **Office** reports the following major governmental funds:

1. **General Fund** – is the general operating fund of the **Office**. It is used to account for and report all financial resources, except for those required to be accounted for in another fund. It is presumed that the **Office's** governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than general fund. Its revenue consists mainly of state appropriations.
2. **Community Services Block Grant & CARES Act – Federal** – The objective of this program is to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. Funds can be used to fund programs and other activities that assist low-income individuals and families attain self-sufficiency; provide emergency assistance; support positive youth development; promote civic engagement; and improve the organization infrastructure for planning and coordination among multiple resources that address poverty conditions in the community. Also, this award reflects supplemental Community Services Block Grant (CSBG) funding available to the state under the Coronavirus Aid, Relief, and Economic Security Act (CARET Act), Public Law 116-136 (2020). The state must use CSBG CARES Act funds to help prevent, prepare for, or respond to the coronavirus.

The **Office** also reports nonmajor governmental fund in a single column, which includes the following:

1. **Special Account Fund** – This fund is used to account for resources of funds that are deposited for specific purposes in accordance with its applicable laws. They can come from governmental entities and authorizations by the Legislature of Commonwealth of Puerto Rico, which are designated to achieve specific purposes. Expenditures charged to these accounts are authorized by legislation previously approved.
2. **Federal Grants Fund** – Accounts for the financial resources related to the Federal Grants Awards administered by the **Office**. The nonmajor governmental fund include the Juvenile Justice and Delinquency Prevention Fund – This fund is used to account for the proceeds for the resources received from the United States Department of Justice. This program supports states and communities in their efforts to develop and implement effective and coordinated prevention and intervention programs and to improve the juvenile justice system so that it protects public safety, holds justice-involved youth appropriately accountable, and provides treatment and rehabilitative services tailored to the needs of juveniles and their families. Besides, include the **American Rescue Plan Grants Fund** - This fund accounts for revenue sources of the American Rescue Plan Act (ARPA) that is intended to help to combat the COVID-19 pandemic, including health and economic impacts.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Excess (deficiency) Statement Line

The excess (deficiency) of receipts over (under) disbursement statement lines represent a summation of the combined receipts and disbursements. Consequently, amounts shown in these lines are not comparable to an excess or deficiency over funds assigned and not represent a superavit or a deficit of the **Office**.

Property and Equipment Acquisition

Property and equipment resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in **Office's** financial statement.

Interfund Transactions

The **Office** has the following types of transactions among funds:

1. Interfund transfers

Interfund transfers represent temporary loans between the funds.

2. Operating transfers

Operating transfers represent transfers between funds to specific purposes designated by the management.

Compensated Absences

The **Office** employees' are granted 15 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation. Employee's vested annual leave is recorded as expenditure when utilized. No accrued compensated absences are reported in **Office's** financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash payment.

Insurance

The **Office** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the **Office's** insurance coverage.

Claims and Judgments

The amount owed by the **Office** for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, are recorded when paid.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Pension Costs

Effective on July 1, 2017, the Office and other participants of the Employee Retirement System of the Government of the Commonwealth of Puerto Rico converted to a new “pay-as-you-go” (“PayGo”) model. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. “PayGo” payments are recorded as expenditures/expenses in the financial statement.

At that date, the **Office’s** pension costs accounting transitioned from GASB Statement No. 68 to the requirements of GASB Statement No. 73 “*Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB No. 68*”. Accordingly, pension costs are reported based on the employer total pension liability, pension expense and deferred outflows/inflows of resources reported by the ERS. For purposes of measuring, pension costs have all been determined on the same basis as they are reported by the ERS.

Accounting for other postemployment benefits (“OPEB”)

GASB Statement No. 75 “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*” is effective for the Agency starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not provided the updated financial statement, nor has it provided to the Agency with the required information to implement the referred accounting pronouncement. The Office’s contribution for OPEB is included as part of the “PayGo” charges billed on a monthly basis by the Puerto Rico Department of Treasury (“PRDT”). “PayGo” payments are recorded as expenditures/expenses in the financial statement.

2. CASH WITH FISCAL AGENTS

Department of the Treasury of the Commonwealth of Puerto Rico

The funds of the **Office** are under the custody and control of the Secretary of the Treasury Department of Puerto Rico pursuant to Act No. 230 of July 23, 1974, as amended, known as “Commonwealth of Puerto Rico Accounting Law”. The Treasury Department follows the practice of pooling cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the **Office** in such pooled cash accounts are available to meet its current operating requirements.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the **Office** will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment guidelines for the Commonwealth, as amended, adopted by the **Office** may invest in obligations of the Commonwealth, obligation of the United States, certificates of deposits, commercial paper, or banker’s acceptance. Therefore, **Office’s** management has concluded that on June 30, 2023, the custodial credit risk associated with the **Office’s** cash and cash equivalents is considered low.

3. FUND ADVANCES

The **Office** receives fund advances from the Treasury Department of Puerto Rico for the interim financing of federal programs, as authorized by Act No. 21 of 1979. This Act establishes that all fund advances made will be reimbursed to the General Fund of the Commonwealth's Treasury as the corresponding federal funds are received. During the fiscal year ended June 30, 2023, the funds were advanced to the **Office** for this purpose.

4. COMPENSATED ABSENCES

According to Act Num. 8-2017 and Act. Num 26-2017, the compensated absences policy of the Commonwealth that applies to the **Office's** employees provides for the accrual of 1.25 days per month up to the annual amount of 15 days of vacation leave, and the accrual of 1.5 days per month up to an annual amount of 18 days of sick leave if hired before February 4, 2017, or 12 days of sick leave if hired after February 4, 2017.

Thereafter, according to Act. Num. 176-2019 (effective December 16, 2019, to December 31, 2020) the compensated absences policy provided for the accrual of 2.5 days of vacation leave and 1.5 days of sick leave per calendar month during a year. However, the United States District Court for the District of Puerto Rico ordered to the Government of Puerto Rico that Act Num. 176-2019 cannot be put into effect because it is contrary to the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). In compliance with the Court's decision, effective on January, 2021, the accrual of vacation and sick leaves were returned to how it is established on Act Num. 8-2017 (1.25 days per month up to the annual amount of 15 days of vacation leave, and the accrual of 1.5 days per month up to an annual amount of 18 days of sick leave if hired before February 4, 2017 or 12 days of sick leave if hired after February 4, 2017).

Vacation leave may be accrued up to sixty (60) days and if at the end of the year (December 31st) the employee has surpassed the accrual limit, on January 1st of the next natural year, the days accrued in excess of 60 days will be lost, unless the **Office** grants an authorization to extend the use of those days accrued in excess of 60 days in a period no greater than March 31st. (See Article 2.04(g) of Act Num. 26-2017). Sick Leave may be accrued up to ninety (90) days.

Vacation leave is fully granted to the employees from the first day of work up to a maximum of 60 days. In the event of an employee resignation or termination, the employee receives payment for the accrued vacation leave up to the maximum of 60 days. Employees don't receive payment for accrued sick leave upon employment resignation or termination.

5. RETIREMENT PLAN

Plan description

The Defined Benefit Pension Plan for Participants of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (the Plan) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the Plan was administered by the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (the System). Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a pay-as-you-go "PayGo" system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

5. RETIREMENT PLAN (CONTINUED)

Plan description – (continued)

As a result of the implementation of the “PayGo” system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. During the fiscal year 2022-2023, the **Office** was billed and recorded the amount of \$330,000 as “PayGo” expenditures.

Pension Benefits

The benefits provided to the Plan participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision.

Certain plan provisions are different for the three groups of members who entered the Plan prior to July 1, 2013, as described below:

- Members of Act No. 447 of May 15, 1951 (Act No. 447) are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (Contributory, Defined Contribution Program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (Define Contribution Hybrid Program, known as System 2000).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013 were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013, froze all retirement benefits accrued through June 30, 2013, under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula for the System 2000 program participants. During the fiscal year ended June 30, 2023, the **Office** employees' contributions amounted to \$169,716.

Service Retirements Eligibility

Eligibility for Act No. 447 Members - members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service.

5. RETIREMENT PLAN (CONTINUED)

Service Retirements Eligibility – (continued)

Act No. 447 members who were not eligible to retire as of June 30, 2013, and did not attain 30 years of credited service by December 31, 2013, are eligible to retire with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

Eligibility for Act No. 1 Members - members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service.

Act No. 1 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service.

Eligibility for System 2000 Members - members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in HighRisk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of the retirement eligibility age shown in the table below.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

Eligibility for Members Hired after June 30, 2013 - Attainment of age 67.

Service Retirement Annuity Benefits

An annuity is payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Hybrid Contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Hybrid Contribution account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

5. RETIREMENT PLAN (CONTINUED)

Service Retirement Annuity Benefits – (continued)

- Accrued Benefit as of June 30, 2013, for Act No. 447 Members - The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation, if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation, if the member was under age 55 as of June 30, 2013 or 60% of average compensation, if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. The maximum benefit is 75% of average compensation. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years.

- Accrued Benefit as of June 30, 2013 for Act No. I Members - The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. I members, the years of credited service, and the attained age of the member all as of June 30, 2013.

Special Benefits

Minimum Benefits

- a) Past ad hoc Increases

The Legislative Assembly, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983.

5. RETIREMENT PLAN (CONTINUED)

Special Benefits – (continued)

Minimum Benefits – (continued)

- b) Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3 of 2013)

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007 and \$300 per month up to June 30, 2007).

- c) Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislative Assembly, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004. In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004, of less than \$1,250 per month, received an increase of up to 3% without exceeding the limit of \$1,250 per month.

Special "Bonus" Benefits

- a) Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.

- b) Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. This amount is prorated if there are multiple beneficiaries.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 5, the Commonwealth provides other retirement benefits, such as healthcare benefits for its retired employees in accordance with local laws.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The Commonwealth accounts for OPEB under the provisions of GASB Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”. This statement requires a systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding that plan. Annual postemployment benefits cost should equal the annual required contribution to the plans, calculated in accordance with certain parameters. These benefits are recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

Plan Description

The Other Postemployment Benefit Plan of the Commonwealth for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is administered on a pay-as-you-go basis.

Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*” (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single employer defined benefit OPEB plan.

The Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

7. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the **Office**. Act No. 70 establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the **Office** will make the employee and the employer's contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirement age and 30 years of credited service. Economic incentives are available to eligible employees who have less than 15 years of credited service, who have at least 30 years of credited service and the age for retirement, or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

For eligible employees that choose the economic incentives and have at least 30 years of credited service and the age for retirement or have the age for retirement, the **Office** will make the employee and the employer's contributions to the Retirement System for a five year period. Additionally, eligible employees that choose to participate in the early retirement benefit program of that choose the economic incentive and have less than 15 years of credited service are eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of the **Office**.

8. COMMITMENTS AND CONTINGENCIES

Litigation - The **Office** is defendant in lawsuits arising in the normal course of operations, principally from claims for alleged violation of civil rights and discrimination in employment practices. According to the laws of the Commonwealth of Puerto Rico, the **Office** is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the **Office**. Any claims with negative financial impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the **Office**.

Federal Awards - The **Office** participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriated grantors or their representatives. If expenditures are disallowed due to noncompliance with grant program regulations, the **Office** may be required to reimburse the grantors for such expenditures.

Comptroller's Office of Puerto Rico Reports - The **Office** is also subject to audits by the Comptroller's Office (COPR). As of financial statement of cash receipts, disbursements, and excess (deficiency) of receipts over (under) disbursement statement date, **Office** has no outstanding audits from COPR. Subsequently, the central government has issued several executive orders to deal with the impact of the COVID-19 pandemic.

9. SUBSEQUENT EVENTS

The **Office** has evaluated subsequent events through March 8, 2024, the date which the financial stat was available to be issued. There are no material subsequent events that would require adjustments to or disclosures in the accompanying basic financial statements as of and for the year ended June 30, 2023.

END OF NOTES

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
CASH RECEIPTS				
Appropriations from the Commonwealth of Puerto Rico	\$ 2,666,000	\$ 2,666,000	\$ 2,666,000	\$ -
State Joint Resolution – Permanent Improvements	13,200,000	13,200,000	13,200,000	-
Total cash receipts	15,866,000	15,866,000	15,866,000	-
CASH DISBURSEMENTS AND ENCUMBRANCES				
Payroll and fringe benefits	1,844,000	1,844,000	1,745,492	98,508
Professional services	330,000	330,000	230,136	99,864
Equipments	5,000	5,000	3,505	1,495
Supplies and materials	40,000	40,000	12,485	27,515
Permanent improvements	13,200,000	13,200,000	-	13,200,000
Utilities	154,000	154,000	148,197	5,803
Transportation	58,000	58,000	20,853	37,147
Others	235,000	235,000	184,336	50,664
Total cash disbursements and encumbrances	15,866,000	15,866,000	2,345,004	13,520,996
Excess (deficiency) of cash receipts over (under) cash disbursements and encumbrances	\$ -	\$ -	\$ 13,520,996	\$ 13,520,996

See notes to Budgetary Comparison Schedule.

Note 1 - General

As an Executive Agency of the Commonwealth of Puerto Rico, the **Office** uses the following procedures in establishing the budget adopted for the General Fund:

- a. The **Office's** management prepares a budget project, which is submitted to the Commonwealth of Puerto Rico's Office of Management and Budget (PROMB).
- b. After approval by PROMB, the budget project is incorporated into the Commonwealth of Puerto Rico's consolidated budget project submitted by the executive body to the Legislature.
- c. Public hearings and discussions are held toward the legal enactment of the budget project on or before the commencement of the fiscal year for which the budget project is prepared (the 1st of July of each year).
- d. Once the budget project is approved, legally adopted and in operations, the **Office's** management can request the transfer of budgeted amounts from PROMB, which after approval, is accounted for by the Commonwealth of Puerto Rico Department of Treasury.
- e. Formal budget integration is employed as a management control devise during the fiscal year for the General Fund.
- f. As stated by the Constitution of the Commonwealth of Puerto Rico, the budgeted expenditures should be balanced with estimated revenues.

Information concerning the budget adopted has been compiled by the **Office** in a manner that could be used to present Budget and Actual – Budget Basis – General Fund (Executive) as required by accounting principles generally accepted in the United States of America, as applicable to governmental units. For financial statement purposes, the **Office** considers the executive funds (shown as Fund accounting 111 in PRIFAS System) authorized, in order to present compliance with budget adopted, which lapses at the end of fiscal year.

Federal Grantor/ Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF JUSTICE				
Direct Program:				
Juvenile Justice and Delinquency Prevention- allocation to State (States Formula Grant)	16.540	2019JXFX0048	\$ -	\$ 14,800
		2018JXFX0039	-	127,838
		2017JFFX0081	-	145,074
Total Juvenile Justice and Delinquency Prevention- allocation to State (States Formula Grant)			-	-
Total U.S. Department of Justice			-	287,712
U.S. DEPARTMENT OF TREASURY				
Pass-through the Puerto Rico Fiscal Agency and Financial Advisory Authority:				
Coronavirus State and Local Fiscal Recovery Fund	21.027	N/AV	-	556,064
Total U.S. Department of Treasury			-	556,064
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Program:				
Community Services Block Grant	93.569			
FY2022CSBG Program		G23-B1PRCOSR	17,383,743	17,385,243
FY2021CSBG Program		G22-B1PRCOSR	15,544,807	16,640,289
FY2020CSBG Program		G21-B1PRCOSR	1,167,229	2,421,968
COVID-19 Community Services Block Grant - 2020 CARES Act Supplemental	93.569	G20-01PRCSC3	378,327	378,327
Total U.S. Department of Health and Human Services			34,474,106	36,825,827
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 34,474,106	\$ 37,669,603

See notes to Schedule of Expenditures of Federal Awards.

A. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the funds expended by the **Socioeconomic and Community Development Office (Office)** from all federal programs for the year ended June 30, 2023. The **Office's** reporting entity is defined in **Note 1** to the financial statement.

B. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and was prepared following the modified accrual basis of accounting.

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures presented on the Schedule are reported on the cash basis of accounting. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

D. FEDERAL ASSISTANCE LISTING NUMBER AND PASS-THROUGH ENTITY IDENTIFYING NUMBER

The Assistance Listing Number (ALN), formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number, is a five-digit number assigned in the awarding document for all federal assistance award mechanisms, including federal grants and cooperative agreements. Assistance listings are detailed public descriptions of federal programs that provide grants, loans, scholarships, insurance, and other types of assistance awards. The Sam.gov assistance listing is the publicly available online database showing all available Federally-funded programs.

State or local government redistributions of federal awards to the **Office**, known as “pass-through awards”, should be treated by the **Office** as though they were received directly from the federal government. The Uniform Guidance requires the Schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

E. INDIRECT COST RATE

The **Office** has elected not to use the 10% minimum cost rate and did not charge indirect cost to federal grants during the year ended June 30, 2023.

F. RECONCILIATION TO FINANCIAL STATEMENT

Information reported in the accompanying Schedule of Expenditures of Federal Awards agreed with or has been reconciled to the information reported in the **Office's** financial statement as follows:

Community Service Block Grant & CARES Act Fund	\$ 36,825,827
Coronavirus State and Local Fiscal Recovery Fund	556,064
Juvenile Justice and Delinquency Prevention – Allocation to State	287,712
Total	\$ 37,669,603



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**To the Executive Director
Commonwealth of Puerto Rico
Socioeconomic and Community Development Office
San Juan, Puerto Rico**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statement – cash basis of the governmental activities, each major fund and the aggregate remaining fund information of the **Socioeconomic and Community Development Office (the Office)**, as of and for the year ended June 30, 2023, and the related notes to the financial statement, which collectively comprise the Office's financial statement as listed in the table of contents, and have issued our report thereon dated March 8, 2024. Our report on the financial statement discloses that, as described in **Note 1**, the **Office** prepares its Statement of Cash Receipts and Disbursements on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the **Office's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of **Office's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Office's** internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs, as item **2023-001** that we consider to be material weaknesses.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Office's** financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item **2023-001**.

Office's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the **Office's** response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. **Office's** response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Office's** internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Office's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Report on Other Legal and Regulatory Requirements

This report is intended solely for the information and use of management, others within the organization and the United States Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 8, 2024

Stamp No. E537148 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors



López-Vega, CPA, PSC

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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Executive Director
Commonwealth of Puerto Rico
Socioeconomic and Community Development Office
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

Qualified Opinion

We have audited the **Socioeconomic and Community Development Office (Office)** compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of **Office's** major federal programs for the year ended June 30, 2023. **Office's** major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on Community Services Block Grant (Assistance Listing Number 93.569)

In our opinion, except for the noncompliance described in the Basis of Qualified Opinion section of our report, the **Office** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Community Services Block Grant (Assistance Listing Number 93.569) for the year ended June 30, 2023.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the **Office** and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the **Office's** compliance with the compliance requirements referred to above.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Matter Giving Rise to Qualified Opinion on – Community Services Block Grant (Assistance Listing Number 93.569)

As described in the accompanying Schedule of Findings and Questioned Costs, the **Office** did not comply with requirements regarding the Community Services Block Grant (Assistance Listing Number 93.569) as described in finding numbers **2023-002** for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the **Office** to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the **Office's** federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the **Office's** compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the **Office's** compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the **Office's** compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the **Office's** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the **Office's** internal control over compliance. Accordingly, no such opinion is expressed.



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Auditor's Responsibilities for the Audit of Compliance (continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item **2023-002**. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on **Office's** response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. **Office's** response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item **2023-002** to be material weaknesses.



López-Vega, CPA, PSC

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)**

Report on Internal Control over Compliance (continued)

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the **Office's** response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The **Office's** response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Other Legal and Regulatory Requirements

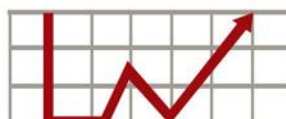
This report is intended solely for the information and use of management, others within the organization and the United States Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 8, 2024

Stamp No. E537149 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Section I – Summary of Auditors’ Results

The independent auditors’ report on the cash basis financial statement expressed an unmodified opinion, and that such cash basis financial statement was prepared using the cash basis method of accounting, which is a basis of accounting other than US GAAP.

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies)? Yes No
- Noncompliance material to financial statement noted? Yes No

Federal awards

Internal Control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies)? Yes No

Type of auditors’ report issued on compliance for major programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section 200.516 (a) of the Uniform Guidance?

Yes No

Identification of Major Federal Programs:

Federal Assistance Listing Numbers	Name of Federal Program or Cluster
93.569	Community Services Block Grant
93.569	COVID-19 Community Services Block Grant - 2020 CARES Act Supplemental
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 1,130,088</u>
Auditee qualified as low-risk auditee?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

Section II – Financial Statement Findings

Finding Reference 2023-001

Requirement **Financial Reporting- Accounting Records**

Type of finding **Material weakness (MW), Instance of Noncompliance (NC)**

This finding is similar to prior years finding 2022-001, 2021-001 and 2020-001.

Statement of Condition The **Socioeconomic and Community Development Office (Office)** does not maintain monthly reconciliations with the transactions reported on the GL-1292 as kept by the Department of Treasury, entity that controls the Office’s budget and accounting in the PRIFAS accounting system.

To mitigate this deficiency, the **Office** engaged an external consultant to analyze the information obtained from the accounting system in order to make an annual reconciliation.

Criteria Law 230 of July 23, 1974, as amended, states that the accounting system will be designed in a manner which provides clear and complete information of the results of the financial operations. Also, the accounting system should provide reliable reports for the preparation and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.

Cause of Condition The **Office** has not finished the process of establishing internal controls to maintain monthly reconciliations with the transactions reported on the GL-1292 as kept by the Department of Treasury.

Effect of Condition The **Office’s** accounting system did not provide updated and complete financial information that presents the results of operations on a monthly basis. Such information is necessary to make management decisions.

Recommendation We recommend that the **Office’s** management continue with the implementation of internal controls and procedures in order to maintain an accounting system that actualizes and reconciles on a monthly basis.

Questioned Costs None

View of Responsible Official and Planned Corrective Action Plan The **Office** agrees with the audit recommendation. The **Office’s** administration hired an external consultant and purchased an accounting system to address the deficiency of the monthly reconciliations with the Department of Treasury's GL-1292 reports.

Section II – Financial Statement Findings

Finding Reference 2023-001 (continued)

**View of Responsible
Official and Planned
Corrective Action Plan**

The **Office** will expedite the full implementation of its newly acquired accounting system within the next three months, ensuring it meets Regulation Num. 49 requirements. Subsequently, the **Office** will finalize and disseminate an updated Policies and Procedures Manual, developed with the assistance of an external consultant, focusing on financial reporting and reconciliation processes. Staff training on these updated procedures will commence immediately after the manual's completion, aiming to establish robust monthly reconciliation practices. This plan will be monitored to assess effectiveness and make necessary adjustments, thereby ensuring the **Office's** financial operations are transparent, up-to-date, and in compliance with relevant laws and regulations.

Implementation Date

During the 2024-2025 fiscal year

Responsible Person

Mr. Armando López, Finance Director

Section III-Major Federal Award Program Finding and Questioned Costs

<u>Finding Reference</u>	<u>2023-002</u>
Federal Agency	U.S. Department of Health and Human Services
Federal Program Title	Community Services Block Grant (ALN 93.569)
Compliance Requirement	Subrecipient Monitoring (M)
Type of finding	Material Weakness in Internal Control (MW), Instance of Noncompliance (NC)
This finding is similar to prior years finding 2022-002, 2021-002 and 2020-005.	
Statement of Condition	During our audit, we observed that the Office is still in the process of conducting monitoring for the four (4) sub-recipients which provide funds. This monitoring must be carried out at least once every three years. As of June 30, 2023, this requirement has not yet been fulfilled.
Criteria	42 USC 9914 (a)(1)(2), establishes that (a) In order to determine whether eligible entities meet the performance goals, administrative standards, financial management requirements, and other requirements of State. The State shall conduct the following reviews of eligible entities:(1) a full onsite review of each such entity at least once during each 3-year period, (2) an onsite review of each newly designated entity immediately after the completion of the first year in which such entity receives funds through the Community Services Block Grant Program (CSBG).
Cause of Condition	The Internal Control Monitoring Program for Federal Funds under the CSBG establishes the guidelines over monitoring reports. However, the Office does not have sufficient staff to perform monitoring reviews to sub-recipients.
Effect of Condition	The Office cannot ensure that the delegated funds to the sub-recipients are being used to meet the goals and standards required by the State. Also, the Office is not in compliance with the 42 USC 9914 (a)(1)(2).
Recommendation	To enhance the effectiveness of current monitoring efforts, it is a requirement to uphold and reinforce the consistency of these activities. Sustaining systematic and regular monitoring practices is essential for ensuring continued compliance with regulations and the efficient management of funds.
Questioned Cost	None
View of Responsible Official and Planned Corrective Action Plan	During the fiscal year 2022-2023, the Office decided to hire an external company specialized in monitoring evaluation for the required Subrecipient Monitoring activities for the fiscal years 2020, 2021, and 2022. Monitoring Schedule: The contracted company has completed the monitoring activities as per the following schedule: (1) ASPRI Monitoring report delivered on November 13, 2023, with a response received

Section III-Major Federal Award Program Finding and Questioned Costs

Finding Reference 2023-002 (continued)

by December 8, 2023. (2) INSEC: Monitoring report delivered on December 4, 2023, with a response received by January 4, 2024. A follow-up communication was sent on February 6, 2024, due to the lack of a Corrective Action Plan submission. (3) Municipality of San Juan: Monitoring report delivered on January 23, 2024, with a response received by February 23, 2024. They requested an extension on February 22, 2024, which was denied by **Office**. They did not deliver. (4) Municipality of Bayamon: Monitoring report delivered on December 29, 2023, with a response received by January 29, 2024. They sent a letter of objection, and it was responded. Evaluation and Follow-Up: The **Office** will review the effectiveness of the monitoring conducted by the external company and the corrective actions follow-up will be the responsibility of the **Office**. A follow-up audit will be scheduled to assess compliance with the Corrective Action Plans and ongoing monitoring requirements. Documentation: All monitoring reports, communications, and evidence of corrective actions will be properly documented and stored for reference and compliance verification purposes. For the fiscal year 2023-2024, the **Office** will compile a comprehensive report detailing the monitoring process, findings, corrective action and compliance status of sub-recipients.

Implementation Date

During the 2024-2025 fiscal year

Responsible Person

Mrs. Nadia Torres Ortiz, Federal Program Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Thais M. Reyes Serrano, Executive Director

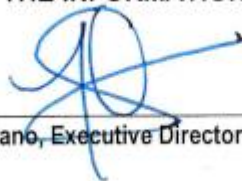
Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2023-001	We concur with the finding.	<p>The Office agrees with the audit recommendation. The Office's administration hired an external consultant and purchased an accounting system to address the deficiency of the monthly reconciliations with the Department of Treasury's GL-1292 reports. The Office will expedite the full implementation of its newly acquired accounting system within the next three months, ensuring it meets Regulation Num. 49 requirements. Subsequently, the Office will finalize and disseminate an updated Policies and Procedures Manual, developed with the assistance of an external consultant, focusing on financial reporting and reconciliation processes. Staff training on these updated procedures will commence immediately after the manual's completion, aiming to establish robust monthly reconciliation practices. This plan will be monitored to assess effectiveness and make necessary adjustments, thereby ensuring the Office's financial operations are transparent, up-to-date, and in compliance with relevant laws and regulations.</p> <p>Implementation Date: During the fiscal year 2024-2025</p> <p>Responsible Persons: Mr. Armando López Financial Officer</p>

March 8, 2024

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



 Thais M. Reyes Serrano, Executive Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2022 – June 30, 2023

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Principal Executive: Thais M. Reyes Serrano, Executive Director

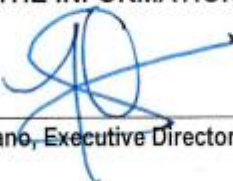
Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
<p>2023-002</p>	<p>We concur with the finding.</p>	<p>During the fiscal year 2022-2023, the Office decided to hire an external company specialized in monitoring evaluation the required Subrecipient Monitoring activities for the fiscal years 2020, 2021, and 2022. Monitoring Schedule: The contracted company has completed the monitoring activities as per the following schedule: (1) ASPRI: Monitoring report delivered on November 13, 2023, with a response received by December 8, 2023. (2) INSEC: Monitoring report delivered on December 4, 2023, with a response received by January 4, 2024. A follow-up communication was sent on February 6, 2024, due to the lack of a Corrective Action Plan submission. (3) Municipality of San Juan: Monitoring report delivered on January 23, 2024, with a response received by February 23, 2024. They requested an extension on February 22, 2024, which was denied by Office. They did not deliver.4) Municipality of Bayamon: Monitoring report delivered on December 29, 2023, with a response received by January 29, 2024. They sent a letter of objection, and it was responded Evaluation and Follow-Up: The Office will review the effectiveness of the monitoring conducted by the external company and the corrective actions follow-up will be the responsibility of the Office.</p>

March 8, 2024

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



 Thais M. Reyes Serrano, Executive Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
<p>2023-002 (continued)</p>	<p>We concur with the finding.</p>	<p>A follow-up audit will be scheduled to assess compliance with the Corrective Action Plans and ongoing monitoring requirements. Documentation: All monitoring reports, communications, and evidence of corrective actions will be properly documented and stored for reference and compliance verification purposes. For the fiscal year 2023-2024, the Office will compile a comprehensive report detailing the monitoring process, findings, corrective action and compliance status of sub-recipients.</p> <p>Implementation Date During the 2024-2025 fiscal year</p> <p>Responsible Person Mrs. Nadia Torres Ortiz, Federal Program Director</p>

March 8, 2024

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Thais M. Reyes Serrano, Executive Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2022-001	Financial Reporting – Accounting Records	<p>The Socioeconomic and Community Development Office (Office) does not maintain monthly reconciliations with the transactions reported on the GL-1292 as kept by the Department of Treasury, entity that controls the Office’s budget and accounting in the PRIFAS accounting system.</p> <p>To mitigate this deficiency, the Office engaged with an external consultant to analyze the information obtained from the accounting system in order to make an annual reconciliation.</p>	<p>The Office agrees with the audit recommendation. We acknowledge the importance of documented policies and procedures in accounting records. The Office’s administration hired an external consultant that is assisting in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters. In addition, the Office’s administration purchased an accounting system (Purchase Order 21329142 – June 30, 2021) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. Also, the accounting system must provide reliable reports for the preparation, conciliation, and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.</p> <p>The Office agrees with the audit recommendation. The Office’s</p>	None	Not resolved yet. See current year Finding 2023-001

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2022-002	Subrecipient Monitoring	We performed audit procedures to the four (4) sub-recipient monitoring reports. Out of those subrecipients, we found three (3) that lacked adequate monitoring procedures.	Administration created two positions for the monitoring area. In addition, Office's Administration is in the process of procuring an external resource that will assist the monitoring and comply with federal requirements.	None	Not resolved yet. See current year Finding 2023-002 .

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2021-001	Financial Reporting-Accounting Records	<p>The Socioeconomic and Community Development Office (Office) does not maintain monthly reconciliations with the transaction reported on the GL-1292 as kept by the Department of Treasury, entity that controls the office's budget and accounting in the PRIFAS accounting system.</p> <p>Also, the Office did not maintain an accounting that summarizes the transactions of all of its General Ledger format in order to properly record cash receipts, cash disbursements and obligations for the transactions of all of its Governmental Funds (Local, State and Federal funds).</p>	<p>The Office agrees with the audit recommendation. We acknowledge the importance of documented policies and procedures in accounting records. ODSEC's Administration is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters. In addition, the Office's administration purchased an accounting system (<i>Purchase Order 21329142 – June 3, 2021</i>) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. Also, the accounting system must provide reliable reports for the preparation and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.</p>	None	Not resolved yet. See current year Finding 2023-001 .

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2021-002	Subrecipient Monitoring Test	We performed audit procedures to the four (4) sub-recipient monitoring reports and we found that for three (3) sub-recipient of the Office's did not realize final monitoring procedures. Furthermore, we did not obtain support documents of the monitoring processes of any of the four (4) sub-recipients.	The Office agrees with the audit recommendation. The Office established the Monitoring Unit within the CSBG Administration in October of 2018, and it became fully functional at once, with its primary responsibility to perform Subrecipient Monitoring for CSBG Programs administered by ODSEC.	None	Not resolved yet. See current year Finding 2023-002 .

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-001	Financial Reporting-Accounting Records	<p>The Socioeconomic and Community Development Office (Office) does not maintain monthly reconciliations with the transaction reported on the GL-1292 as kept by the Department of Treasury, entity that controls the office’s budget and accounting in the PRIFAS accounting system.</p> <p>Also, the Office did not maintain an accounting that summarizes the transactions of all of its General Ledger format in order to properly record cash receipts, cash disbursements and obligations for the transactions of all of its Governmental Funds (Local, State and Federal funds).</p>	<p>The Office agrees with the audit recommendation. We acknowledge the importance of documented policies and procedures in accounting records. ODSEC’s Administration is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters. In addition, the Office’s administration purchased an accounting system (<i>Purchase Order 21329142 – June 3, 2021</i>) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. Also, the accounting system must provide reliable reports for the preparation and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.</p>	None	Pending of final action of the Municipality’s Management.

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-002	Capital Assets and Expenditures – Subsidiary ledger and Additions	During our audit, we noted the following exceptions: a) The Subsidiary Property Ledger did not detail the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date. b) We did not obtain evidence that the physical has been completed. The property must be reconciled with accounting records at least once every two years. c) The model SC-1211 for the fiscal year 2019-2020 was not updated. d) We noted that the Office acquire seven (7) Microsoft Surface Pro 6 through general fund and federal fund with a cost of \$12,355.00. Those properties were not included in the Property Subsidiary Ledger. However, we examine that these units were stamped with a property tag and the existence of these properties. e) We noted that the Office acquired twenty-eight (28) HP Elite Computers with a cost of \$39,060.00. This units were not included in the Property Subsidiary Ledger.	The Office agrees with the audit recommendation. The Office's administration purchased an accounting system (<i>Purchase Order 21329142 – June 3, 2021</i>) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. The accounting system must provide reliable reports for the preparation of the Subsidiary Property Ledger that include the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date.	None	Full corrective action has been taken.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-003	Expenditures for Goods and Services and Purchasing and Receiving	We performed a cash disbursements test and examined seventeen (17) payments which belonged to General Fund; eleven (11) which belonged to Special Revenue Fund and thirty-two (32) which belonged to Federal Fund. The following will summarize the internal control exceptions noted: a) During our examination of the Office's documentation on purchasing and receiving, we detected that the Office does not have adequate and effective internal controls to ensure that all the required information was supported the transactions by appropriate documentation. b) In four (4) payments which belonged to Special Revenue Fund and Federal Fund, the original disbursement voucher and purchase order were not available for our examination. b) In three (3) payments which belonged to Federal Fund, the original documents where the payments are approved by the director or authorized representative were not available for our examination. c) In eight (8) payments which belonged to Special Revenue Fund and Federal Fund, the purchase order or contract were not available for our examination.	The Office agrees with the audit recommendation. The Office's disbursement vouchers include all the required supporting documents before the issuance of any payment and ensure that all the required information was supported and archived.	None	Full corrective action has been taken.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-004	Capital Assets and Expenditures – Subsidiary ledger and Additions	During our audit, we noted the following exceptions: a) The Subsidiary Property Ledger did not detail the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date. b) We did not obtain evidence that the physical has been completed. The property must be reconciled with accounting records at least once every two years. c) The model SC-1211 for the fiscal year 2019-2020 was not updated. d) We noted that the Office acquire seven (7) Microsoft Surface Pro 6 through general fund and federal fund with a cost of \$12,355.00. Those properties were not included in the Property Subsidiary Ledger. However, we examine that these units were stamped with a property tag and the existence of these properties. e) We noted that the Office acquire twenty-eight (28) HP Elite Computers with a cost of \$39,060.00. This units were not included in the Property Subsidiary Ledger.	The Office agrees with the audit recommendation. The Office's administration purchased an accounting system (<i>Purchase Order 21329142 – June 3, 2021</i>) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. The accounting system must provide reliable reports for the preparation of the Subsidiary Property Ledger that include the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date.	None	Full corrective action has been taken.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-005	Subrecipient Monitoring Test	We performed audit procedures to the four (4) sub-recipient monitoring reports and we found that for three (3) sub-recipient of the Office's did not realize final monitoring procedures. Furthermore, we did not obtain support documents of the monitoring processes of any of the four (4) sub-recipients.	The Office agrees with the audit recommendation. The Office established the Monitoring Unit within the CSBG Administration in October of 2018, and it became fully functional at once, with its primary responsibility to perform Subrecipient Monitoring for CSBG Programs administered by ODSEC.	None	Pending of final determination of U.S. Department of Health and Human Services Community Services Block Grant.